

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 42
ORO GRANDE**

REPORT ON AUDIT

JUNE 30, 2005

County of San Bernardino Special Districts
County Service Area No. 42
Oro Grande
Table of Contents

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Statement of Net Assets - Proprietary Fund	F	8
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	G	9
Statement of Cash Flows - Proprietary Fund	H	10
Notes to Financial Statements		11 - 21
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (Park)	One	22



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JOSEPH P. WALSH, C.P.A.
SCOTT W. MANNO, C.P.A.
JENNY LIU, C.P.A.
MATTHEW B. WILSON, C.P.A.
ROBYN B. ROSE, C.P.A.
BRAD A. WELEBIR, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 42 - Oro Grande

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2005, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande, as of June 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 42 - Oro Grande has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rogers, Anderson, Malody + Scott, LPA

September 16, 2005

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 11,358	\$ 242,233	\$ 253,591
Accounts receivable, net	-	14,000	14,000
Interest receivable	74	1,414	1,488
Taxes receivable	1,896	-	1,896
Capital assets, net of depreciation	99,383	181,317	280,700
	<hr/>	<hr/>	<hr/>
Total Assets	112,711	438,964	551,675
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts payable	-	4,819	4,819
Salaries and benefits	464	-	464
Due to other governments	-	4,843	4,843
	<hr/>	<hr/>	<hr/>
Total Liabilities	464	9,662	10,126
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Invested in capital assets	99,383	181,317	280,700
Unrestricted	12,864	247,985	260,849
	<hr/>	<hr/>	<hr/>
Total Net Assets	\$ 112,247	\$ 429,302	\$ 541,549
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Activities
For the Year Ended June 30, 2005

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 17,952	\$ 115,730	\$ 133,682
Services and supplies	21,643	38,239	59,882
Utilities	-	11,997	11,997
Depreciation	7,519	7,783	15,302
Professional fees	-	25,443	25,443
Other	167	2,823	2,990
Intergovernmental expense	95	-	95
Total Program Expenses	<u>47,376</u>	<u>202,015</u>	<u>249,391</u>
PROGRAM REVENUES			
Charges for services	<u>4,512</u>	<u>186,976</u>	<u>191,488</u>
Net Program Expense	<u>(42,864)</u>	<u>(15,039)</u>	<u>(57,903)</u>
GENERAL REVENUES			
Property taxes	13,511	1,258	14,769
Other taxes	1,701	-	1,701
State assistance	541	-	541
Investment earnings	468	5,231	5,699
Penalties	-	3,156	3,156
Other	-	19,278	19,278
Total General Revenues	<u>16,221</u>	<u>28,923</u>	<u>45,144</u>
Change in Net Assets	(26,643)	13,884	(12,759)
Net Assets - beginning	<u>138,890</u>	<u>415,418</u>	<u>554,308</u>
Net Assets - ending	<u>\$ 112,247</u>	<u>\$ 429,302</u>	<u>\$ 541,549</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Balance Sheet
Governmental Funds
June 30, 2005

	SPECIAL REVENUE FUND <u>Park (SIV)</u>	OTHER GOVERNMENTAL FUND <u>Street Lights (SIY)</u>	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 9,375	\$ 1,983	\$ 11,358
Interest receivable	74	-	74
Taxes receivable	1,896	-	1,896
	<u>11,345</u>	<u>1,983</u>	<u>13,328</u>
Total Assets	<u>\$ 11,345</u>	<u>\$ 1,983</u>	<u>\$ 13,328</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits	\$ 464	\$ -	\$ 464
	<u>464</u>	<u>-</u>	<u>464</u>
Total Liabilities	<u>464</u>	<u>-</u>	<u>464</u>
Fund Balances:			
Reserved for:			
Imprest cash	100	-	100
Unreserved:			
Undesignated	10,781	1,983	12,764
	<u>10,881</u>	<u>1,983</u>	<u>12,864</u>
Total Fund Balances	<u>10,881</u>	<u>1,983</u>	<u>12,864</u>
Total Liabilities and Fund Balances	<u>\$ 11,345</u>	<u>\$ 1,983</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Net Assets of Governmental Activities

99,383

\$ 112,247

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	SPECIAL REVENUE FUND <u>Park (SIV)</u>	OTHER GOVERNMENTAL FUND <u>Street Lights (SIY)</u>	Total Governmental Funds
REVENUES			
Property taxes	\$ 8,142	\$ 5,369	\$ 13,511
Other taxes	1,701	-	1,701
State assistance	541	-	541
Investment earnings	388	80	468
Service fees	4,512	-	4,512
	<u>15,284</u>	<u>5,449</u>	<u>20,733</u>
EXPENDITURES			
Salaries and benefits	15,756	2,196	17,952
Services and supplies	17,325	4,318	21,643
Other	167	-	167
	<u>33,248</u>	<u>6,514</u>	<u>39,762</u>
Excess of Revenues Over (Under) Expenditures	<u>(17,964)</u>	<u>(1,065)</u>	<u>(19,029)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(82)</u>	<u>(13)</u>	<u>(95)</u>
Total Other Financing Sources (Uses)	<u>(82)</u>	<u>(13)</u>	<u>(95)</u>
Net Change in Fund Balances	(18,046)	(1,078)	(19,124)
Fund Balances - beginning	<u>28,927</u>	<u>3,061</u>	<u>31,988</u>
Fund Balances - ending	<u>\$ 10,881</u>	<u>\$ 1,983</u>	<u>\$ 12,864</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	(19,124)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$7,519) exceeded capital outlay (\$-0-) in the current period.

(7,519)

Change in Net Assets of Governmental Activities	\$	(26,643)
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
Proprietary Fund
June 30, 2005

	ENTERPRISE FUND
	Refuse, Water, Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 242,233
Accounts receivable, net	14,000
Interest receivable	1,414
	<hr/>
Total Current Assets	257,647
	<hr/>
Noncurrent Assets:	
Capital assets:	
Land	44,800
Improvement to land	396,266
Construction in progress	30,746
Accumulated depreciation	(290,495)
	<hr/>
Total Noncurrent Assets	181,317
	<hr/>
Total Assets	438,964
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts payable	4,819
Due to other governments	4,843
	<hr/>
Total Current Liabilities	9,662
	<hr/>
NET ASSETS	
Invested in capital assets	181,317
Unrestricted	247,985
	<hr/>
Total Net Assets	\$ 429,302
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	ENTERPRISE FUND
	Refuse, Water, Sewer
OPERATING REVENUES	
Charges for services	\$ 178,688
Other	120
Total Operating Revenues	<u>178,808</u>
OPERATING EXPENSES	
Professional fees	25,443
Salaries and benefits	115,730
Services and supplies	38,239
Utilities	11,997
Depreciation	7,783
Other	2,823
Total Operating Expenses	<u>202,015</u>
Operating (Loss)	<u>(23,207)</u>
NONOPERATING REVENUES	
Property taxes	1,258
Special assessments	8,168
Investment earnings	5,231
Penalties	3,156
Other	19,278
Total Nonoperating Revenues	<u>37,091</u>
Change in Net Assets	13,884
Total Net Assets - beginning	<u>415,418</u>
Total Net Assets - ending	<u><u>\$ 429,302</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	ENTERPRISE FUND
	Refuse, Water, Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 190,331
Payments to suppliers	(75,303)
Payments to employees	(115,730)
Net Cash (Used For) Operating Activities	<u>(702)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	1,258
Special assessments	8,168
Penalties	3,156
Other nonoperating revenue	19,278
Net Cash Provided By Noncapital Financing Activities	<u>31,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>4,660</u>
Net Cash Provided By Investing Activities	<u>4,660</u>
Net Increase in Cash and Cash Equivalents	35,818
Cash and Cash Equivalents Balance - beginning of the year	<u>206,415</u>
Cash and Cash Equivalents Balance - end of the year	<u><u>\$ 242,233</u></u>
Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	\$ (23,207)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	7,783
Change in assets and liabilities:	
Increase in accounts receivable	(883)
Decrease in due from other governments	12,406
Decrease in accounts payable	(1,644)
Increase in due to other governments	4,843
Net Cash (Used For) Operating Activities	<u><u>\$ (702)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 42 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide water sanitation, sewer, park, refuse collection and street lighting services to the community of Oro Grande.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 42 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2005.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "Park" provides park services to the community of Oro Grande.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Refuse, Water, Sewer" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates refuse collection, water, and sewer services in the community of Oro Grande.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the CSA enterprise fund are charges to customers for refuse, water and sewer services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Refuse, Water, Sewer Enterprise Fund at June 30, 2005 is net of an allowance for doubtful accounts of \$7,608.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents include the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2005.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2005, the accounts receivable balance was composed of the following:

	<u>Refuse/Water/Sewer</u>
Accounts receivable	\$ 21,608
Less: allowance for uncollectibles	<u>(7,608)</u>
Total accounts receivable, net	<u><u>\$ 14,000</u></u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Total capital assets, not being depreciated	<u>9,930</u>	<u>-</u>	<u>-</u>	<u>9,930</u>
Capital assets, being depreciated:				
Improvements to land	227,485	-	-	227,485
Equipment	11,493	-	-	11,493
Total capital assets, being depreciated	<u>238,978</u>	<u>-</u>	<u>-</u>	<u>238,978</u>
Less accumulated depreciation for:				
Improvements to land	(135,346)	(7,086)	-	(142,432)
Equipment	(6,660)	(433)	-	(7,093)
Total accumulated depreciation	<u>(142,006)</u>	<u>(7,519)</u>	<u>-</u>	<u>(149,525)</u>
Total capital assets, being depreciated, net	<u>96,972</u>	<u>(7,519)</u>	<u>-</u>	<u>89,453</u>
Governmental activities capital assets, net	<u><u>\$ 106,902</u></u>	<u><u>\$ (7,519)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,383</u></u>

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005**

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	30,746	-	-	30,746
Total capital assets, not being depreciated	75,546	-	-	75,546
Capital assets, being depreciated:				
Improvements to land	396,266	-	-	396,266
Total capital assets, being depreciated	396,266	-	-	396,266
Less accumulated depreciation for:				
Improvements to land	(282,712)	(7,783)	-	(290,495)
Total accumulated depreciation	(282,712)	(7,783)	-	(290,495)
Total capital assets being depreciated, net	113,554	(7,783)	-	105,771
Business-type activities capital assets, net	<u>\$ 189,100</u>	<u>\$ (7,783)</u>	<u>\$ -</u>	<u>\$ 181,317</u>

NOTE 5: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members." The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005**

NOTE 5: RETIREMENT PLAN (continued)

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 8.44%, County Safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of \$141,450,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2005, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 141,450
Interest on Pension Assets	(34,779)
Adjustment to the Annual Required Contribution	38,135
Annual Pension Cost	<hr/> 144,806
Annual Contributions Made	<hr/> 141,450
Increase/(Decrease) in Pension Assets	(3,356)
Pension Assets, Beginning of Year (As Restated)	<hr/> 848,238
Pension Assets, End of Year	<hr/> <hr/> \$ 844,882

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005**

NOTE 5: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2003	\$ 68,361	\$ 59,673	100%
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2005 is \$439,539,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2005 is \$463,895,000.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005

NOTE 7: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.3 million at June 30, 2005.

The total claims liability of \$115.7 million reported at June 30, 2005 is based on the requirements of *GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2004 and 2005 were:

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2005**

NOTE 7: RISK MANAGEMENT (continued)

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2003 - 2004	\$ 93,802	\$ 45,128	\$ (37,221)	\$ 101,709
2004 - 2005	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714

NOTE 8: CONTINGENCIES

As of June 30, 2005, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Budgetary Comparison Schedule
Special Revenue Fund (Park)
For the Year Ended June 30, 2005

	Special Revenue Fund			
	Park (SIV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 24,882	\$ 24,882	\$ 8,142	\$ (16,740)
Other taxes	-	-	1,701	1,701
State assistance	-	-	541	541
Investment earnings	1,000	1,000	388	(612)
Service fees	3,500	3,500	4,512	1,012
Total Revenues	29,382	29,382	15,284	(14,098)
EXPENDITURES				
Salaries and benefits	14,725	15,925	15,756	169
Services and supplies	27,657	26,457	17,325	9,132
Other	-	-	167	(167)
Reserves and contingencies	16,163	16,163	-	16,163
Total Expenditures	58,545	58,545	33,248	25,297
Excess of Revenues Over (Under) Expenditures	(29,163)	(29,163)	(17,964)	11,199
OTHER FINANCING SOURCES (USES)				
Transfer out	(82)	(82)	(82)	-
Total Other Financing Sources (Uses)	(82)	(82)	(82)	-
Net Change in Fund Balance	\$ (29,245)	\$ (29,245)	(18,046)	\$ 11,199
Fund Balance - beginning			28,927	
Fund Balance - ending			\$ 10,881	